Department for Communities and Local Government

Government Response to the House of Commons Communities and Local Government Committee Second Report of Session 2012-13

European Regional Development Fund

September 2012

Cm 8389

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COMMUNITIES AND LOCAL GOVERNMENT SELECT COMMITTEE

Report following inquiry into the European Regional Development Fund

Introduction

1. The Government welcomes the Select Committee's inquiry and sees it as an important contribution to the debate on the value of European Regional Development Funding.

2. It has given us an opportunity to emphasise the role that ERDF plays in supporting growth and to provide evidence to demonstrate that the programmes are making good progress in delivering their targets and in meeting their spending commitments. During the current, 2007-13 programme period, it represents almost £3 billion in England, which is matched with equivalent funding from other sources to deliver jobs and businesses across the country.

3. We respond below to the recommendations made by the Committee.

Response to Committee Conclusions and Recommendations

4. The Select Committee's conclusions and recommendations are quoted below in boxes, with the Government's response underneath. They are presented in the same order and under the same headings as in the Committee's report.

Impact and value for money

1. The European Regional Development Fund (ERDF) is highly valued by local authorities and other recipients. It has made vital contributions to a variety of projects across the country, many of which would not have gone ahead without ERDF money.

2. We recognise that it is difficult to isolate the impact of ERDF from other factors, but in these economic times the taxpayer must be reassured that public money is being spent effectively. We are concerned that it has been difficult to assess the value for money of ERDF; we recommend that the Government should evaluate this and report to us by the summer of 2013 on what has been achieved in each region. It should also ensure that monitoring and evaluation is improved and streamlined for the 2014-20 round.

3. Although the majority of benefits are realised in later years, the evidence available to us suggests that ERDF 2007-13 has not yet made a significant impact. It is not even possible to conclude that the 2000-06 ERDF round has done so, because of the lack of robust evidence. The challenges facing regions such as Cornwall and the Isles of Scilly are profound, and ERDF can only provide part of any solution.

Government Response

5. As the Committee notes, European Regional Development Funding is highly regarded by a range of beneficiaries and it has made vital contributions to a variety of projects across the country. We welcome the Committee's recognition of the difference it has made and continues to make.

6. The Government agrees with the Committee's conclusions on the importance of ensuring every pound of taxpayers' money is spent to the best effect in ERDF projects. It also agrees with the Committee's suggestion that the benefits of ERDF extend well beyond the immediate programme period: for example small business incubators funded by this source support new businesses, which can go on to thrive and create new jobs and growth.

7. The impact of ERDF can be particularly seen in Cornwall, an area on which the Committee focused in some detail. The Cornwall ERDF programme has comfortably met all its annual spend targets and has currently contracted £309 million, over 84% of its £365 million allocation. The local economy in Cornwall grew at 3.4% per annum between 2003 and 2009, higher than the national average of 3.0% and the overall south west level of 2.7%, although, as with England as a whole, the economy fell between 2008 and 2009 due to the recession.

8. The 2000-06 programme created 177,391 new jobs and supported 207,662 small and medium enterprises. More details of these can be found in the Final Programme Reports. These were submitted to the European Commission in March 2010 and we have been waiting for the Commission to sign them off. They will be published as soon as we have received their clearance.

9. Our most recent output figures for 2007-13 show that 69% of the programme is already contractually committed. A further 29% is currently waiting to go to contract, amounting to 98% of the total England allocation, and we are still well over a year from 31 December 2013, when the programmes end. So far, 45% has actually been spent, meaning that there is well over three years, until 31 December 2015, to ensure that all the funds are spent. It is a Government priority to ensure that no unspent funds are returned to the European Commission. So far, 55,440 jobs, in the current programme have been either created or safeguarded and 9,565 new businesses have been created. It should be borne in mind that ERDF projects tend to deliver outputs towards the end of the programme period.

More details can be found in the Annual Implementation Reports which we submit annually to the European Commission.

10. To help us set ERDF against the wider context of growth policy, we are commissioning an England-wide evaluation study of the 2007-13 programming period. This will include the monitoring and evaluation of impacts, which will need to be fed into the development of the 2014-20 ERDF programmes. We will send copies of the latest Annual Implementation Reports, which will cover 2012, and the results of the England-wide evaluation, to the Committee by the summer of 2013.

11. The European Commission has proposed a heightened emphasis on robust performance management and evaluation in the next round of programmes. The Government supports this strongly, although it must not involve additional bureaucracy.

The role of DCLG

4. We found support for the manner in which DCLG has managed ERDF in England following the decision to abolish the Regional Development Agencies (RDAs). Significantly, the decision to transfer former RDA staff to DCLG and leave them located in the regions smoothed the transition. Where there was criticism it was that the transition had, in some areas, caused delays, particularly in approving new projects. We recommend that DCLG review arrangements for approving projects in those areas where delays have been reported.

5. ERDF is particularly useful for innovative projects which, because of the lack of alternative funding sources, might otherwise be unable to proceed. We urge DCLG to ensure that novel projects are supported, and not put at a disadvantage in a rush to get ERDF money spent on more straightforward, but potentially less beneficial, projects.

6. We are concerned that the lack of availability of match funding remains a serious impediment to the success of ERDF in England, almost a year since DCLG assumed responsibility. We are concerned that the government does not seem to appreciate the problems caused by the shortage of match funding. This problem, together with DCLG's sensible desire to see all the ERDF money spent by the end of 2015, increases the risk that value for money will suffer.

7. We recommend that the Government reconsiders its decision not to set aside part of the Regional Growth Fund budget to provide match funding for ERDF. We conclude that the Government needs to demonstrate greater strategic oversight in aligning funding streams, both in the short term and from 2014 onwards.

Government Response

12. We are grateful for the Committee's comments about the manner in which the Department of Communities and Local Government managed the transition following the closure of the Regional Development Agencies. We also welcome the comments made in oral evidence to the Select Committee on 30 April by the European Commission representative Doctor Jose Palma-Andres, who said that the transition was well managed by DCLG.

13. We have seen little evidence that the transfer caused delays in the approval of projects. The programme is on target, but if delays occur they will be dealt with quickly. We want to ensure that all the ERDF allocated to England is spent so as to maximise its contribution to economic growth.

14. The Committee expressed concerns that, as the end of the programme approaches, more innovative projects may not receive support. Innovation is a key priority in English ERDF programmes, and there are some excellent examples of support for projects turning cutting-edge technology into market solutions: for example in the East of England ERDF supports a project using hemp stems to make lightweight durable car components. We have not seen any evidence to date that novel projects, such as this, are being hindered. However it is essential that they can demonstrate that they are compliant with the strict European Commission regulations. We expect this focus on innovation to continue for the remainder of the programme.

15. The Committee expressed concern about match funding for ERDF projects. To date we have seen little evidence of a lack of this. This is borne out by the fact that if the amount of ERDF already contracted is added to that waiting to be contracted, the amount committed nationally is around 98% of the total English ERDF allocation. It should be emphasised that projects are required to identify their sources of match funding before they can enter the contracting process. Furthermore, projects can be approved until the end of 2013 and money can be paid out until the end of 2015.

16. That said, we realise the importance of a continued focus on match funding, including exploring opportunities to secure more from the private sector. Department of Communities and Local Government (DCLG) officials, working with Department for Business, Innovation and Skills (BIS) officials, have also carried out an exercise to identify and publicise further potential sources of match funding across Government. In December 2011, Mark Prisk, Minister in BIS and Baroness Hanham, Minister in DCLG wrote to all the chairs and vice chairs of the Local Management Committees, which oversee ERDF funding locally, to remind them of the availability of match funds from within government programmes. There are also other sources of match funding available, such as local authorities, universities, the European Investment Bank and the private sector. The Government will continue to monitor the situation carefully.

17. We are keen to see ERDF matched with Regional Growth Fund projects. A number have already been successful in accessing RGF as match funding and we hope that this will continue to be an additional source for supporting suitable projects. We do not consider it necessary at this stage for consideration to be given to part of the Regional Growth Fund budget being specifically allocated to match funding. Nevertheless, we anticipate that suitable projects will continue to come forward accessing both funds.

Improvements for the future

8. We welcome the Commission's proposed Common Provisions Regulation, which is a move towards simplification as a way of reducing the costs of the EU's regional funds for both taxpayers and organisations bidding for funding. We encourage the Government to take advantage of the opportunity this offers to streamline the system in England.

9. We welcome the Commission's proposals to harmonise its regional policy funds. It is vital that the available money is used effectively and efficiently; aligning the funding streams more closely should make it simpler and cheaper to administer, and easier for projects to access the funds. We also welcome the move towards a more flexible geographic basis to the Operational Programmes which should devolve management responsibility to groups such as Local Economic Partnerships. This will bring the decision-making process closer to the communities seeking funding, and should also make it easier to fund projects that span artificial regional boundaries.

10. We support the general principles of funding conditionality as a way of ensuring ERDF and other funds are directed towards Member States that can use the money most effectively. We agree with the Government that, on the basis of previous commitments made in the EU, macroeconomic conditionality should not apply to the UK, and we support the Government in taking a firm negotiating position on this.

11. We consider that ERDF resources should be targeted at the poorest EU regions, and it would appear that the Commission's proposals for 2014-20 weight the funding towards those regions appropriately. The introduction of the Transition category of regions will reduce the cliff-edge effect that exists under the current arrangement and is a sensible development. It is clear that withdrawing funding entirely from wealthier Member States is not supported for the 2014-20 ERDF round and we agree with the Government's decision not to pursue it in negotiations. The Government should, however, continue to put forward its arguments with the aim of securing enough support from other Member States for subsequent rounds.

12. We support the principle of repatriating regional policy funding, provided funding could be protected and ring-fenced over the long-term

to ensure that the poorest English regions continued to receive the same level of support they would have received under the current system. The mechanism for achieving this objective will require the consent of other Member States and the Commission, as well as agreement with HM Treasury that the funding be guaranteed for the same seven year cycle.

Government Response

18. The Government welcomes the support of the Select Committee for the proposals in the draft Regulations for 2014-20 to simplify the administrative process for organisations bidding for funding. We are pressing for further simplification of financial control and audit procedures in particular to ensure that more cost-effective and proportionate controls are in place.

19. The Government also welcomes the Select Committee's support for closer alignment of EU Funds in terms of both strategy and implementation. Alignment should be aimed at achieving maximum growth and employment through improving coordination of EU funding and synergies with domestic programmes. Simultaneous reductions in the administrative burden on Nation-States should also be a core objective.

20. This will support more effective spending aimed at stimulating economic growth and promoting employment, as well as reducing local and national disparities in development. But any changes that are agreed on that basis should result in streamlined, simplified systems and reduced error rates. Changes, where introduced, must allow Nation-States flexibility to integrate and align funds with national funding as appropriate.

21. The Government also welcomes the increased geographical flexibility that the proposed Regulations provide for in terms of enabling Nation-States to design their own architecture to deliver funds, whether that be at national, local or sub local level, across administrative boundaries.

22. The Government wants to ensure effective and efficient delivery of Structural Funds programmes, so tax payers' money is spent effectively. So the UK supports ex ante conditionalities that improve the effectiveness of the funds, but they need to be necessary for delivery of objectives, be proportionate, respect subsidiarity and be clearly set out in the Regulation - and not left open to interpretation. The Government welcomes the Select Committee's support for our negotiating line on the application of macroeconomic conditionalities to the United Kingdom.

23. The Government agrees with the Select Committee that Structural Funds should focus on stimulating economic development in the less wealthy Nation-States. However, we do not agree with the proposed introduction of the category of transition regions, that is, those regions which have a Gross Domestic Product of between 75-90% the European Union average. The introduction of a category for Transition regions, as proposed by the Commission, goes against the principle of focusing support on the less

wealthy member states. We want to ensure the final agreement supports our aim of keeping our contributions to the EU budget as low as possible.

24. The Government is not convinced of the added value of Transition regions on the basis of their affordability within the EU budget. The recycling of funds between Nation-States with the capacity to finance their own regional development policy is not the best use of the EU budget and we need to guard against a potentially over-generous system which proposes to award some regions proportionately more than before despite their fortunes having risen. We do not consider that this would be a good deal for UK taxpayers.

25. The Government set out its position on future rounds of structural funds in its response to the Fifth Cohesion Report in January 2011. Whilst continuing to believe that wealthier Nation-States should not receive Structural and Cohesion Funds, the Government recognises the need to participate in the 2014-20 programme. It will be for the Government in due course to consider its position on whether the UK should participate in any future rounds, and whether ring-fenced domestic funding might replace structural funds.

26. The Government has continued to support investment in all places, by introducing 24 new Enterprise Zones; allocating £1.4 billion of investment through the Regional Growth Fund with a further £1 billion to come, and providing £770 million to Local Enterprise Partnerships through the Growing Places Fund. HM Treasury sets out Government's spending plans on a four yearly basis. To retain maximum flexibility for the Exchequer, Government does not make commitments to fund particular programmes apart from in exceptional circumstances.

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